With the outbreak of the War of the Rebellion Ohio was called upon to furnish and equip troops for federal use and also to defend her own borders. More revenue was necessary, loans had to be made to provide for immediate needs, and additional and heavier taxes had to be imposed. The occasion demanded a more energetic and capable administration of the state finances than had previously characterized them, as well as a greater willingness to impose and pay taxes. As so generally in times of crisis, there was an immediate response to the needs of the situation, and a fairly efficient financial administration for the next five years. The Civil War began with the firing on Fort Sumter on April 12; the President issued his first call for troops on April 15. And on April 18 Ohio responded with an appropriation of $1,000,000 "to provide for the defense of the state, and for the support of the federal government against rebellion." Of this amount $450,000 was for the purchase of arms and equipment for the militia; $500,000 to be expended by the governor to carry into effect any requisition of the President of the United States; and $50,000 was an extraordinary contingent fund under the control of the governor. Under this act and a later one of April 26, the commissioners of the sinking fund issued and sold at par 6 per cent certificates of funded debt of the state to the amount of $1,212,039, payable in 1865, 1866, and 1868.[87] These were known as the Union loans. At the same time an extra war tax was levied for the purpose of meeting these expenditures. Before this could become effective, however, the expenses of the Union loans and the interest on them were paid out of the sinking fund. Again had the temptation to use this fund in the hour of need proved too strong to be prevented by a mere statute. During the year there was redeemed of the loan of 1860, $215,000, and the remaining

[87] "Report of Commissioners of Sinking Fund" (November 16, 1861), *Exec. Docs.* (1861), I, 569; "Auditor's Report" (1861), *ibid.*, p. 28.

portion of the temporary loan of 1858 due March 1, 1861, making the total payments $565,000. On November 15, 1861, the debt amounted to $14,897,273, or a net increase during the year of $647,039.

The crisis of December, 1861, resulted in a suspension of specie payments throughout the country on December 30; a few days later the federal government did the same. In Ohio the banks were authorized early in January[88] temporarily to suspend specie payments, and to receive and pay out United States demand notes. In return the banks were required to furnish the treasurer of the state with sight exchange, payable in New York in coin, for their own notes, in the proportion that the circulation of a bank should bear to the circulation of all solvent banks in the state, at a rate not over ½ of 1 per cent premium, for the purpose of paying the interest and principal of the state debt. Thus the very act suspending specie payments for the banks made provision for meeting the obligations of the state to its creditors in coin.

After the issue of the greenbacks and the resulting premium on coins and their disappearance from circulation, the question presented itself in Ohio, which later confronted the federal government, namely, as to whether the interest and principal of the public debt should be paid in coin or in depreciated paper. The bonds called for "coin," but it was very plausible to argue that now that the federal government had issued United States notes and made them legal tender, they might properly be used in place of coin. The issue was discussed by both the auditor and the governor in their messages of 1862.

> The most important question relative to the public debt [said the auditor[89]] concerns the future payment of the interest on the public debt in coin. . . . . When this act[90] was passed, coin was at a premium of 2 per cent in New York. In May, when the quota of the banks for the July interest was notified to them, it was 4 per cent; when the interest became payable, July 1, it was at 7 per cent; now [December, 1862] the premium ex-

[88] Act of January 16, 1862 (O.L., 1862, p. 3).

[89] "Auditor's Report" (1862), *Exec. Docs.* (1862), I, 178.

[90] Act of January 16, 1862, requiring the banks to furnish New York exchange at a premium of not over ½ of 1 per cent in exchange for their own notes.

ceeds 30 per cent. It seems clear if the banks are required to furnish coin they must go into liquidation. Moreover, it is not clear that they could not use United States notes which have been made legal tender, instead of coin, except in redemption of *their own notes,* to make up the quota. . . . . Should the state suspend specie payment of interest on the foreign debt? Hitherto, through all the fluctuations of the currency of the country, as well while the banks were in suspension as while they were paying coin, with one unimportant exception, the state of Ohio has paid this interest with coin, or the equivalent of coin.

The auditor suggested that, in order to obtain this coin, either increased taxes must be levied with which to buy it, or a part of the taxes should be collected in coin.

The governor, in his annual message for 1862,[91] presented the arguments for and against the payment of the debt in coin, and concluded that the state ought not to violate its agreements.

The banks of the state had availed themselves of the provisions of the suspension act by suspending specie payments. Accordingly when they were called upon by the sinking fund commissioners for the sum needed to pay the July interest, $405,625, they furnished it promptly without waiting for their own notes to be presented. When the interest, amounting to $391,538, due on January 1, 1863, was requested, the banks insisted upon their own notes being presented for their quota, which was done with some little trouble, as the banks were already reducing their circulation. The interest on the domestic debt had been paid meanwhile in currency and not in coin, and it was felt that it was unfair to the holders of this debt to treat them differently from the owners of the foreign debt. When the July interest became due the banks notified the treasurer that they would not furnish coin, and the interest was therefore paid in United States currency.[92] This action seems to have been accepted as a matter of course, and had little effect on the market value of the securities of the state.[93]

[91] Governor's Message, *Exec. Docs.* (1862), I, 18–19.

[92] "Report of Treasurer," *Exec. Docs.* (1863), I, 330.

[93] "Report of Treasurer," *Exec. Docs.* (1864), I, 12. New York paid her creditors in paper in 1864; so did Pennsylvania and Indiana. "Massachusetts was the only state and Boston the only city which maintained specie payments to all holders of their obligations contracted before 1861."—E. D. Fite, *Social and Industrial Conditions in the North during the Civil War,* p. 121.

Since she was paying her obligations in currency it seemed wasteful to retain a stock of dead coin in the treasury, especially when it was commanding a high premium in the market. There was $65,300 in gold and $2,134 in silver in the treasury; in his report for 1865 the treasurer urged that this be sold.[94] Accordingly, the General Assembly, by a joint resolution of March 20, 1866, authorized the sale of the gold coin, which was forwarded to the American Exchange National Bank of New York and sold by it at an average premium of about 32 per cent, realizing a profit of $21,315 after deducting the broker's commission and the government tax.[95] The auditor regretted only that the sale had not been authorized at an earlier period, as so much more could have been made.[96] After this only greenbacks and notes of national banks were used in transactions by the state; in August of that year the treasury balance consisted of $435,595 in currency and $2,117 in silver.[97] In 1870 the creditors of the state began to demand gold for the principal and interest due them, claiming that, as the debts due them were contracted prior to the passage of the legal tender act of Congress, they were entitled to gold under the recent decision of the Supreme Court of the United States on the subject of coin payment on such contracts.[98] The legislature, however, took no action in the matter, and currency continued to be used in this as in all other transactions of the state treasury, until the resumption of specie payments in 1879.

During the war, from 1861 to 1865, the expenditure of Ohio for military purposes was $10,410,240. With this large extraordinary drain upon her resources, she yet reduced her public debt $1,985,259,[99] and this was accomplished without oppressing her people by state taxation, as the average increase of state levies for the four years was but seven-tenths of one

[94] *Exec. Docs.* (1865), II, 43.

[95] "Treasurer's Report," *Exec. Docs.* (1866), I, 8.

[96] "Auditor's Report," *Exec. Docs.* (1866), I, 146.

[97] "Report of Special Examiners of the Treasury," *Exec. Docs.* (1866), I, 284.

[98] "Auditor's Report," *Exec. Docs.* (1870), I, 319. The auditor urged the payment in gold of all debts contracted prior to the passage of the legal tender act.

[99] From November 15, 1861, to November 15, 1865.

mill on the dollar's valuation of her grand duplicate.[100] This seeming miracle was accomplished by two factors: there was a large increase in the valuation of the property returned for taxation, so that the same rate produced a larger revenue; and in the second place, there was an extraordinary response on the part of the people to the demands of the state. The proportion of taxes not collected shrank to very small proportions, the smallest in the history of the state.[101] As a consequence of these facts, but few loans were required to meet the extraordinary expenditures after the increased tax rates became effective. The following "Union" loans were made during the war: in 1861 the 6 per cent domestic loan of 1865 for $250,000; the 6 per cent domestic loan of 1866 for $300,204; and the 6 per cent loan of 1868 for $661,835, of which $281,969 was raised in Ohio and the balance in New York. In 1862 another "foreign" loan was made—the 5 per cent loan of 1865 for $1,015,000. No money was borrowed in 1863, but in 1864 the fear of invasion led to the placing in Ohio of a fifth loan, of $400,000 at 6 per cent, due in 1871; a premium of $503 was received on this.

The immediate resort to heavier taxation and the prompt response by the tax-payers made it possible not only to use loans sparingly as a means of securing the necessary funds, but also to pay off rapidly the existing debt. Ohio offered a striking example during the war of a state increasing her expenditures and liquidating her obligations at the same time. As fast as a block of bonds became due, or approached maturity, they were at once attacked and paid off, a process made possible by the fact that almost every year some such issue did mature. The changes in the composition of the debt and the rapidity of payment during the decade 1860–70 can best be shown by giving the debt statement of July 20, 1859, and a table showing the successive payments after that date.

[100] *Auditor's Report* (1865), p. 329.

[101] The delinquencies and costs of collection of the taxes levied in 1863 were only 1 per cent ("Auditor's Report," *Exec. Docs.* [1864], I, 220).

DEBT STATEMENT, JULY 20, 1859*

Date of Maturity of Foreign Debt	Rate of Interest	Amount
	per cent	
Loan due after December 31, 1860	6	$ 6,413,325
Loan due after December 31, 1865	5	1,025,000
Loan due after December 31, 1870	6	2,183,532
Loan due after December 31, 1875	6	1,600,000
Loan due after December 31, 1886	6	2,400,000
Temporary loans—		
Loan due after July 1, 1860	6	350,000
Loan due after July 1, 1861	6	350,000
Domestic debt—		
Loan due after May 1, 1863	6	275,385
Overdue stock of 1846	..	1,765
Overdue stock of 1856	..	5,311
National Road bond	..	60
		$14,604,379

* This was the only report made this year by the sinking fund commissioners, as they changed the dates of their reports from January and July 20, to May and November 15. The next report was that of May 15, 1860; no change was made during the interval.

The additions to the debt during the war have already been given. In 1862 the loan of 1860 was refunded in part, to the amount of $4,095,309, into bonds maturing in 1881; $494,111 was redeemed, and the remainder, $1,608,905, left outstanding and gradually paid off in the next few years. The following table shows the payments during the decade, for the fiscal years, ending November 15:

PAYMENTS ON THE DEBT, 1860–69

	1860	1861	1862	1863	1864	1865
Overdue loan of 1856	$ 5,000	......	......	......	......	......
Temporary loan of 1860	350,000	......	......	......	......	......
Temporary loan of 1861	......	$350,000	......	......	......	......
Permanent loan of 1860	......	215,000	$494,111	$346,626	$120,773	$579,237
Permanent loan of 1863	......	......	......	29,600	241,785	4,000
Permanent loan of 1865	......	......	260,000	......	......	5,500
Permanent loan of 1866	......	......	500	297,704	1,500	......
Permanent loan of 1868	......	......	1,000	1,756	......	......
Permanent loan of 1870	......	......	......	......	......	......
Total	$355,000	$565,000	$755,611	$675,686	$364,058	$588,737

PAYMENTS ON DEBTS, 1860-69—*Continued*

	1866	1867	1868	1869	Total, 10 years
Overdue loan of 1856.......	....	......	......	......	$ 5,000
Temporary loan of 1860....	....	......	......	......	350,000
Temporary loan of 1861....	....	......	......	......	350,000
Permanent loan of 1860....	$ 94,247	$447,101	$14,651	$ 5,000	2,316,746*
Permanent loan of 1863.....	....	......	......	......	275,385
Permanent loan of 1865.....	1,002,500	7,000	......	......	1,275,000
Permanent loan of 1866.....	500	......	......	......	300,204
Permanent loan of 1868.....	....	328,725	327,254	600	659,335*
Permanent loan of 1870.....	....	......	157,362	510,493	667,855
Total..................	$1,097,247	$782,826	$499,267	$516,093	$6,199,525

* The balance of $1,270 on the debt of 1860 and of $2,500 on the debt of 1868 were both paid in 1872.

This was a splendid exhibition of financial strength and good management. Every resource not demanded by the other needs of the state was being devoted to this purpose. By a provision of the appropriation bill of 1867, the auditor was authorized to transfer, temporarily, balances of various funds to the sinking fund, and to pay therewith portions of the debt. The aggregate interest saved by this transaction amounted to $37,431, and the governor recommended that the plan be made permanent, as "so manifestly economical and proper."[102] The debt on August 15, 1867, was $11,056,817, of which the amount held by citizens of Ohio was about $1,271,000, the balance being held equally in the United States outside of Ohio and in Europe.[103] The debt had now been reduced to such a low figure that the legislature felt it possible to abolish the office of state agent of the commissioners of the sinking fund, which had hitherto been maintained in New York City;[104] arrangements were made to have the interest due there paid through some bank selected by the commissioners. They made an agreement with the American Exchange National Bank to pay both principal and interest free of charge.[105]

[102] Governor's Message (January 6, 1868), *Exec. Docs.* (1867), I, 149.

[103] "Report of Special Examiners of the Sinking Fund," *Exec. Docs.* (1867), I, 169.

[104] Act of May 8, 1868 (O.L., 1868, p. 131).

[105] "Report of Sinking Fund Commissioners" (December 19, 1868), *Exec. Docs.* (1868), I, 566. This bargain was evidently not profitable to the bank, for in 1882 the commissioners urged the legislature to grant it $5,000 for its services ("Report of Sinking Fund Commissioners," *Exec. Docs.* [1882], I, 1203).

The state levy for the sinking fund had remained at 1.2 mills, and was bringing into the sinking fund for the payment of interest and principal on the public debt over a million and a quarter dollars annually. Consequently the reduction in the principal was correspondingly large during these years, being as follows: 1865, $1,097,000; 1866, $782,000; 1867, $500,000; 1868, $516,000; 1869, $264,000. "The finances of the state," wrote the auditor in 1866,[106] "were never in as favorable a condition as at the present time; and her credit in the market is not surpassed by that of any other state or government in the world." Surplus financiering placed too great a strain, however, upon the steadfastness of the legislators. It was easy to spend money, and still easier to borrow from the sinking fund than to levy additional taxes. During the year 1868 the legislative expenses proved to be some $90,000 in excess of the estimates, while other causes brought up the estimated deficiency in the general revenue fund to nearly $200,000. Acting upon the suggestion of the auditor[107] the legislature transferred $175,000 from the sinking fund to the general revenue fund, with the proviso, however, that it must be repaid by January 1, 1871, when the next instalment of the public debt would fall due.[108] The next year they transferred $200,000. At the same time, however, they most ill-advisedly reduced the levy for sinking fund purposes from 1.2 to 0.7 mills, thus diminishing the taxes for this purpose from $1,370,102 in 1868, to $808,826 in 1869. In answer to the remonstrances of the auditor,[109] the legislature raised the rate the following year to 0.8 mills.

The accumulations in the sinking fund proved sufficient, however, to meet the balance of the debt falling due in 1870, including the domestic defense loan of $400,000. The act appropriating money for this purpose in 1870[110] used the phrase "as required by the constitution," showing that the constitutional requirement was not yet forgotten. The next year, as

[106] "Auditor's Report," *Exec. Docs.* (1866), I, 133.

[107] "Auditor's Report" (December 12, 1868), *Exec. Docs.* (1868), I, 85.

[108] Act of May, 1868.

[109] "Auditor's Report," *Exec. Docs.* (1869), I, 374.

[110] Act of April 16, 1870 (O.L., 1870, p. 67).

no debt fell due, the sinking fund commissioners purchased state bonds in the open market, but were unable to purchase the full amount required under the constitution. "None of the bonds were due and some of the holders refused to surrender them at any price, while others demanded 10 to 12 per cent premium. Under the law as it stands," wrote the auditor,[111] "the commissioners could do nothing with the money." Nevertheless, they managed to pay off $439,175 of the debt during the year ending November 15, 1872, reducing the principal on this date to $8,583,547.[112] In October, 1873, the commissioners advertised in New York City for proposals for surrender of Ohio state stocks, but only one proposition was received in response, and that was for so small a sum and at such a high rate of premium that no attention was paid to it.[113] The money was meanwhile piling up in the sinking fund, and the commissioners asked for authority to invest in United States bonds until the next batch of state bonds should fall due, on January 1, 1876. This was not granted, and there seemed no recourse but to let the appropriations called for by the Constitution accumulate in the sinking fund.[114]

A solution of the difficulty was, however, attempted by the legislature. In spite of the protest of the auditor, and in distinct contravention of the constitution,[115] the General Assembly, at the sessions of 1872 and 1873, passed acts[116] authorizing the temporary transfer of money from one fund to another.[117] The money which had accumulated in the sinking fund, and which the commissioners were unable to use in the purchase of bonds or to invest, was evidently too tempting a morsel to the legislators. In pursuance of these laws, large sums were transferred from the sinking and common school funds to the revenue and asylum funds. In 1873 the attorney-general, in response to a resolution of the House, gave an elaborate opinion that the

[111] *Auditor's Report* (1870), p. 319.

[112] Governor's Message, *Exec. Docs.* (1872), II, 556.

[113] "Report of Commissioners of Sinking Fund," *Exec. Docs.* (1874), I, 328.

[114] There was paid of the public debt $222,857 in 1874, and $38,285 in 1875.

[115] Art. XII, sec. 5.

[116] O.L., Vol. LXX, p. 271.

[117] Governor's Message (December 1, 1874), *Exec. Docs.* (1874), I, 3.

laws authorizing these transfers were unconstitutional. This opinion deprived the argument of earlier auditors, that such transfers were not "diversions" in the meaning of the law, of all validity,[118] and for a while after this the public funds were held and used for the purposes for which they were collected. There still remained, however, of these transferred funds, which had not been returned, the sums of $580,000 due the sinking fund, and $21,000 due the common-school fund.

To the legislature it seemed a foolish thing, even though commanded by the constitution, to tie up money in the sinking fund, where it was doing no good. They consequently proceeded to reduce the rate of taxation. But they must have felt some hesitation as to the propriety of this act, for the House addressed a query to the auditor as to whether the rate of taxation could be reduced. In spite of his answer in the negative[119] the legislature cut down the tax rate for state purposes from 3.5 to 3.2 mills, resulting in a reduction of state taxes of about $474,000. This made it impossible for the asylum fund to pay back its temporary borrowings to the sinking fund.[120] Owing to this fact the sinking fund commissioners were able to redeem only $868,230 of the debt of $1,473,115 which was due on January 1, 1876.[121] An extension of three months was

[118] In his report for 1869, for instance, the auditor, James H. Codman, argued at length that the transfers of funds were not diversions, but merely loans. After quoting from the constitution the provision that "no tax shall be levied, except in pursuance of law; and every law imposing a tax shall state distinctly the object of the same, to which only it shall be applied" (Art. XII, sec. 5); and the further provision that the sinking fund is not to be used for any other purpose than the payment of the public debt (Art. VIII, sec. 7), he then asks of the transfers made from the sinking fund: "Was this constitutional? Was it a *diversion* of revenue from purposes for which raised to other purposes? No; it was a temporary loan of unused funds merely, to be later repaid when needed. . . . . The attorney-general agrees with these general principles." He then proceeds to justify it for the following reasons: "If the transfers had not been made, the state must have suspended payment, all our benevolent institutions suffered immense inconvenience and loss, and the state lost immeasurably in reputation. I thought it too narrow a view for an executive officer to incur consequences so grave and serious to the state, upon a mere technicality of language, where the substance was provided for."

[119] Letter of March 31, 1874. In "Auditor's Report," *Exec. Docs.* (1874), I, 62.

[120] The commissioners of the sinking fund contented themselves with a mild request that they be allowed 6 per cent interest on sums borrowed ("Report," November 19, 1874, *Exec. Docs.* [1874], I, 327).

[121] If the previous moderate levy of 8 mills for the sinking fund had been maintained, the loans due in 1875 and 1881 could both have been met upon maturity.

granted in which to pay the remaining $604,875, by which time the semiannual payment of the state taxes would be available; they were all redeemed before the end of the year, except $7,700, which was paid in the two following years.[122]

At the close of 1876 the public debt was as follows:

The loan of 1868 amounting to	$ 2,500
The loan of 1875 amounting to	7,700
The loan of 1881 amounting to	4,072,640
The loan of 1886 amounting to	2,400,000
Total foreign debt	$6,482,840*

* In addition to this there was still $1,665 of an old canal loan outstanding, which had ceased to bear interest.

There was now no further debt to pay until June 30, 1881, when bonds to the amount of $4,072,640 would mature. Accordingly the legislature, now that the immediate pressure was removed, promptly reduced the tax levy for the sinking fund from 0.8 mill to 0.5 mill, which rate would produce a surplus of about $1,000,000, in addition to paying the interest, by the time of the maturity of the debt in 1881. In his report for that year the auditor considered this "entirely adequate" as it prevented the accumulation of funds. He then went on to say "unless the constitutional provision directing the creation of a sinking fund . . . . *annually* to reduce the principal by the sum of $100,000, compounded at 6 per cent, is deemed an imperative and perpetual requirement, the present levy will suffice."[123] The commissioners of the sinking fund, however, insisted that the requirements of the constitution in respect to the sinking fund were specific, and called for definite annual appropriations. They recommended an increase in the tax levy from 0.5 mill to an amount sufficient to meet the constitutional requirements, and the investment of the accumulations in United States bonds until the debt should fall due in 1881 and 1886.

[122] The unbusinesslike attitude of the legislature is well illustrated by an incident that occurred in connection with this deficit. The auditor in his report of 1874 (*Exec. Docs.*, I, 62) said it "was not unanticipated," and printed his letter of March 31, 1874, in which he advised against reducing the rate of taxation. In the session of 1875 the chairman of the House Committee of Finance criticized the auditor severely for presuming "to put the state to the expense of printing in his annual report . . . . this letter" ("Auditor's Report," *Exec. Docs.* [1875], II, 340).

[123] *Auditor's Report* (1876), p. 6. See also report for 1877, p. 52.

This advice was not heeded by the legislature and during the years 1876[124] to 1880 inclusive no appropriations at all were made for the payment of the public debt—a flagrant disregard of the clear provisions of the constitution. It was not, however, for lack of prodding, for in his report for 1879 the auditor recurred to the matter in the following terms:

> The language of the constitution is clear, and, as I deem it, imperative, that there should be provided from 1851 a sinking fund . . . . [quotes constitution]. No appropriation has been made since 1875, and while it is true that no part of the debt has matured since that date, yet if the means had been provided as was contemplated by the constitution, the commissioners of the sinking fund would be able to buy up Ohio stocks offered at reasonable rates. The amount which the sinking fund ought to have received in the past five years [including 1880] is $2,282,425.[125]

The auditor then recommended an increase of the tax levy and the appropriation of this amount. No attention was paid by the legislature to this recommendation, but in another way it made tardy restitution to the now empty sinking fund. Various acts[126] had transferred money amounting to $843,414 from the sinking fund to the general revenue and asylum funds. In the meantime $393,414 had been paid back, leaving a balance still owing of $450,000; the act of March 26, 1879, had merged the asylum fund in the general revenue fund. By the act of February 8, 1881,[127] the legislature now provided for an appropriation of $272,640 from the general revenue fund to the sinking fund, leaving a balance of $177,360 still unpaid. In addition to this, $1,000,000 was appropriated to the sinking fund from state revenues. This made it possible to redeem bonds to the amount of $1,275,140.[128] The balance, $2,800,000, was refunded in 4 per cent bonds, payable in annual instalments from 1882 to 1888.[129] After these operations the public debt statement for November 15, 1881, was as follows:

[124] The appropriation to pay the debt falling due on January 1, 1876, was made by act of March 30, 1875.

[125] *Auditor's Report* (1879), p. 31. The actual balance in the sinking fund on November 15, 1879, was $741,805.

[126] Acts of April 16, 1867; May 5, 1869; April 27, 1872; and May 5, 1873.

[127] O.L., 1881, p. 26.

[128] This includes $2,500 still outstanding of the loan of 1868.

[129] Act of February 19, 1881 (O.L., 1881, p. 34).

Loan payable after December 31, 1886, bearing 6 per cent interest..	$2,400,000
Loan payable July 1, 1882, bearing 4 per cent interest..............	300,000
Loan payable July 1, 1883, bearing 4 per cent interest..............	325,000
Loan payable July 1, 1884, bearing 4 per cent interest..............	350,000
Loan payable July 1, 1885, bearing 4 per cent interest..............	350,000
Loan payable July 1, 1886, bearing 4 per cent interest..............	375,000
Loan payable July 1, 1887, bearing 4 per cent interest..............	500,000
Loan payable July 1, 1888, bearing 4 per cent interest..............	600,000
Canal loan, not bearing interest..................................	1,665
	$5,201,665

This new loan of $2,800,000 was placed at a premium of $105,000, which brought the actual rate of interest down to a level of about 3.1 per cent, a fact which called forth the following complacent comment from the governor:[130] "The fact that this loan was secured by a rate of interest less than has yet been paid by any state, or by the United States, attests the high financial standing of the state." Of the fact that the appropriations to the sinking fund for the purpose of paying the principal of the public debt fell short of the constitutional requirements by over $1,000,000 in the five years ending with 1880, no mention was made.

There was no difficulty in meeting the small amounts of debt due in 1882 and 1883; these were promptly paid, as well as $54,150 of the 6 per cent loan due after 1886.[131] In the latter year the finances of the state were in such a favorable condition that the legislature authorized the commissioners of the sinking fund to buy bonds due in 1884, 1885, and 1886, to an aggregate amount of $450,000 upon such terms as with interest should not exceed a 3 per cent rate.[132] The commissioners made use of this authority to purchase within the next eight months bonds amounting to $85,950 of the loan due after December 31, 1886, bearing 6 per cent interest. It was impossible then to persuade the holders of any larger amount to accept the terms offered,[133] though in the next two years they were able to redeem $69,634 and $32,650 respectively.

[130] Governor's Message (1881), p. 5.

[131] "Report of the Commissioners of Sinking Fund," *Exec. Docs.* (1883), I, 1146.

[132] Act of April 6, 1883 (O.L., 1883, p. 97).

[133] Governor's Message (1883), p. 5.

The small instalments of the 4 per cent bonds falling due in 1884, 1885, and 1886 were paid as they were presented, but no attempt was made to pay the larger amount of the 6 per cent loan falling due after December 31, 1886. When this came due the principal had been reduced by purchases in the open market to $2,243,564. Authority was given the commissioners of the sinking fund to refund this by the issue of new bonds at a lower rate of interest.[134] They refunded $218,425 of this debt in 3 per cent bonds falling due in 1891, 1894, and 1898, letting the remainder run until a more convenient time. During the same year a temporary loan was authorized, bearing 3½ per cent interest and falling due on July 1, 1887.[135] As a result of these operations the debt stood as follows on November 15, 1886:

6 per cent loan payable after December 31, 1886	$2,025,139
3½ per cent loan payable July 1, 1887 (temp. loan)	500,000
4 per cent loan payable July 1, 1887	500,000
4 per cent loan payable July 1, 1888	600,000
3 per cent loan payable July 1, 1891	18,425
3 per cent loan payable July 1, 1894	100,000
3 per cent loan payable July 1, 1898	100,000
Canal loan, not bearing interest	1,665
Total	$3,845,229

These operations may be severely criticized. The temporary loan was badly timed, in being allowed to fall due at the same date as the 4 per cent loan of $500,000, namely, on July 1, 1887. The payment of the refunded 6 per cent debt was, on the other hand, postponed too long and made payable in too small instalments. By way of excuse it may be said, however, that the conditions were unfavorable and that the plans of refunding were not fully carried out at this time. These objections were partly met by further refunding operations the next year. But before taking these up it is necessary to explain the addition of $500,000 to the state debt.

During the year 1885 the extravagant appropriations of the

[134] Act of April 17, 1885 (O.L., 1885, p. 139). This act provided that the new certificates should be payable before January 1, 1917, and that the interest should not exceed 5 per cent.

[135] *Auditor's Report* (1886), p. 367.

General Assembly and the unexpected decline in the aggregate of personal property returned for taxation had occasioned a deficit which necessitated a recourse to borrowing to meet current expenditures.[136] During the years 1884 and 1885 there was a decline in the aggregate of personal property on the tax duplicate of $32,293,135, reducing the state taxes by over $45,000.[137] At the same time the appropriations of the General Assembly showed an enormous increase, those for the year 1885 being the largest in the whole decade 1880–89.[138]

TOTAL SUM APPROPRIATED FROM GENERAL REVENUE FUND EACH YEAR

1880	$2,414,000	1885 (maximum)	$3,524,000
1881	2,465,000	1886	3,079,000
1882	2,767,000	1887	3,136,000
1883	2,922,000	1888	3,100,000
1884	2,899,000	1889	3,300,000

These two facts coming together made necessary the anticipation of the taxes, the addition of half a million dollars to the state debt, and a recourse to financial juggling, which even broke down once or twice in the next two years. For the two years 1885 and 1886 there was an excess of appropriations over receipts of $687,191, and of payments over receipts of $607,065.[139] To meet these drafts the auditor was compelled to draw on the counties for taxes due in June, 1887, as early as May 21; bills due in October were held back until November 12, the earliest date at which funds could be raised from counties by advance drafts, which at that date were paid by the counties out of funds not collected for the state but in the local treasuries. There were even several days in the previous year when the state actually suspended payment.[140]

To meet this emergency a loan for $500,000 was placed.[141] Owing to the absence from the state of certain of the senators and

[136] Governor's Message (1888), p. v.

[137] The tax rate as fixed on April 16, 1885, was 1.4 mills for the general revenue fund (O.L., 1885, p. 124).

[138] Governor's Message (1889), p. ix.

[139] *Auditor's Report* (1887), p. 291.

[140] *Auditor's Report* (1886), p. 300.

[141] Act of May 13, 1886. It was to mature not later than July 1, 1887, and to bear interest not higher than 5 per cent (O.L., 1886, p. 154).

the consequent distrust by capitalists of bonds as to whose legality there was some doubt, the issue was made to run for only one year. Although placed at a rate of 3½ per cent—higher than the refunding issues of the previous year—the loan brought in a premium of only $886.97.[142] Before this loan fell due, however, it was refunded by the issue of new certificates of indebtedness bearing 3 per cent interest and falling due in two instalments of $250,000 each on July 1, 1889, and July 1, 1890.[143]

The problem of insufficient revenue to meet the smaller expenditures was still to be met, for if not solved the deficiencies would certainly recur again. "It is difficult to see," said the governor in 1886,[144] "how you can appropriate less than you did last year. . . . . Without increasing our sources of revenue there are only three ways in which we may 'catch up.' One is to increase the rate of taxation, another is to borrow, and the third is to give the state a portion of the liquor-traffic tax." Of these the governor opposed the first method; the second was manifestly inadequate and temporary, for the whole amount of state debt that could be created was only $750,000, leaving the further sum to be raised from this source only $250,000. He therefore advocated the third plan, of giving to the state 25 per cent of the liquor taxes, which at this time were wholly local taxes. This recommendation was carried out by the act of March 26, 1888.

We may now return to the state debt, which we left only half refunded and badly arranged for purposes of payment. After their first effort at refunding, the commissioners of the sinking fund made a contract with a certain Albert Netter, by the terms of which Netter was to deliver to the commissioners the outstanding 6 per cent bonds and receive in return new bonds bearing 3 per cent interest.[145] These were made to mature in annual instalments of $250,000 each from 1891 to 1899. For these new bonds Netter was moreover to pay a premium of $21.35 for every $1,000 bond. During the year, the 4 per cent

[142] Governor's Message (1886), p. 744.

[143] Act of March 21, 1887 (O.L., 1887, p. 167).

[144] Governor's Message (1886), p. 744.

[145] *History of the Ohio Canals*, p. 105 (Ohio Archaeological and Historical Society, 1905).

loan falling due on July 1, 1887, was paid off, as was also the odd fraction, $3,564, of the 6 per cent loan payable after December 31, 1886, left after refunding $2,240,000 of the outstanding debt of $2,243,564. On November 15, 1887, accordingly, the debt stood as follows:[146]

Loan payable July 1, 1888, bearing 4 per cent interest	$600,000
Loan payable July 1, 1889, bearing 3 per cent interest	250,000
Loan payable July 1, 1890, bearing 3 per cent interest	250,000
Loan payable July 1, 1891, bearing 3 per cent interest	250,000
Loan payable July 1, 1892, bearing 3 per cent interest	250,000
Loan payable July 1, 1893, bearing 3 per cent interest	250,000
Loan payable July 1, 1894, bearing 3 per cent interest	250,000
Loan payable July 1, 1895, bearing 3 per cent interest	250,000
Loan payable July 1, 1896, bearing 3 per cent interest	250,000
Loan payable July 1, 1897, bearing 3 per cent interest	250,000
Loan payable July 1, 1898, bearing 3 per cent interest	250,000
Loan payable July 1, 1899, bearing 3 per cent interest	240,000
Canal loan, not bearing interest	1,665
Total debt	$3,341,665

The public debt had now been put in very convenient form for easy, if not speedy, payment. With the exception of the first year, there was the sum of only $250,000 to redeem each year for eleven years, and by 1899 the debt would be entirely paid. The only objection to it was that it was in distinct contravention of the provisions of the constitution, which called for a complete extinguishment of the debt by 1891. The annual sinking fund payment on the principal of the debt required by the constitution amounted in 1887 to $814,726; by 1891 it would be $970,353, and by 1898 about $1,500,000; and yet here provision was made for the annual payment of only a quarter or less of these sums. That such a provision existed in the constitution or the laws had evidently been entirely lost sight of, as no mention is made of it in the reports of either sinking fund commissioners or auditor, or the messages of the governors, or in the laws themselves.[147]

[146] *Auditor's Report* (1887), p. 299.

[147] The last mention I have been able to find of the constitutional requirement in the laws was in the appropriation act of April 16, 1870 (O.L., 1870, p. 67). In the reports of the auditors and sinking fund commissioners it is not referred to after 1877 (see note 123).

During the year 1888 another temporary loan of $250,000 was made necessary by reason of the large over-appropriations of previous legislatures, and the resulting anticipations of tax collections. This was authorized April 12 and issued April 18, and consisted of $50,000 4 per cent and $200,000 5 per cent sixty-day certificates of indebtedness.[148] Adding this to the previous debt, we have a total of $3,591,665. On the other hand the temporary debt was repaid during the year, as was also half of the loan payable July 1, amounting to $300,000. The other instalment of $300,000 was refunded in 3 per cent bonds, payable July 1, 1900,[149] thus extending by another year the final expunging of the state indebtedness. On November 15, 1888, the funded debt of the state stood at $3,041,665.

The whole of the outstanding debt had now been refunded into 3 per cent bonds, resulting in an appreciable saving in interest charges. On July 1, 1886, the annual interest charge had amounted to $186,114; it had now been reduced to $91,200.[150] This represented an annual saving of $94,914, or over half, and was accomplished without any increase in the rate of general taxation or any addition to the revenues except that from the liquor tax. The financial condition of the state was indeed greatly improved. The decline in the aggregate of personal property on the tax duplicate had now been stopped, and a slight increase in the total valuation of taxable property had been brought about—from $1,670,000,000 in 1885 to $1,732,000,000 in 1888. Moreover the annual payments now to be made on account of the public debt were so small that the rate of taxation for the sinking fund was reduced from 0.5 mill to 0.3 mill.[151] This yielded about $500,000 a year, which was just sufficient to pay off the annual instalments of $250,000, and the interest on the irreducible debt, representing school funds, which amounted to about as much more. The sums falling due were paid off regularly each year beginning with 1889.

[148] *Auditor's Report* (1888), p. 234.

[149] Act of April 14, 1888 (O.L., 1888, p. 263).

[150] O.L., 1886, p. 45; O.L., 1889, p. 74. But cf. Governor's Message (1888), p. v, where wrong figures are given.

[151] Governor's Message (January 6, 1890), *Exec. Docs.* (1889), I, viii. The governor recommended a further reduction to 0.2 mill.

It seemed impossible, however, for the legislature to face a surplus without indulging in extravagant appropriations. In 1891 there were some large deficiencies. The following year a not altogether unexpected windfall occurred in the reimbursement to the state treasury by the Sixty-first Congress of the direct taxes paid by Ohio during the Civil War. Of the sum thus received over $1,000,000 was placed to the credit of the sinking fund, but at the same time no levy was made and no taxes were collected for the sinking fund.[152] It seemed that there was less of a desire to pay off the debt, which might have been done by anticipating the date of maturity, as the federal treasury had been doing on so large a scale, than to reduce taxes.

At the same time the state board of equalization made a reduction of taxable property upon the grand duplicate, which resulted in a reduction of revenue received in 1892 below that of 1891 by about $100,000. This might have been made good, and probably would have been, by the normal increase in taxable property in the state, had not the panic of 1893 and the resulting depression affected the finances during the next few years. Beginning with 1893 the value of personalty on the tax duplicate for the state sank from $568,600,000 in that year to $542,300,000 in 1894, and $527,600,000 in 1895. State taxes decreased from $4,819,000 in 1893 to $4,790,000 in 1894 and again in 1895.[153] While appropriations from the general revenue fund remained within bounds, they showed a slight increase, reaching their highest point in 1894. They were as follows:

1892	$3,778,000	1894	$3,983,000
1893	3,805,000	1895	3,796,000

All these circumstances taken together again rendered necessary recourse to a temporary loan of $500,000. This was authorized by the act of April 25, 1894,[154] bore 3 per cent interest, and was made payable July 1, 1896. A later act[155] exempted the bonds from taxation. The annual instalments due in these years were paid until 1896, when the two issues of $250,000

[152] Governor's Message, *Exec. Docs.* (1892), I, 4.

[153] *Auditor's Report* (1894), p. 196.

[154] O.L., 1894, p. 186.

[155] May 10, 1894 (O.L., 1894, p. 228).

each, due on July 1, 1896, and July 1, 1897, respectively, were refunded at the same rate of interest so as to fall due on July 1, 1901, and July 1, 1902.[156] Of the temporary loan of $500,000, half was redeemed this year and the other half was extended until July 1, 1897,[157] when it also was paid off. Again the payment of the debt, which might easily have been accomplished by a slight increase in taxation, was subordinated to a desire to keep down the tax rates or to avoid reduction in expenditures.

The end of this long period of indebtedness now seemed close at hand, but there was still one more check to its extinguishment. Under the act of April 8, 1898,[158] a war loan of $200,000 was made for the purpose of defraying the expenses of the national guard in the war with Spain; this bore 3 per cent interest and was made payable July 1, 1903. This was the last addition to the debt. The few remaining annual payments were easily made, and on July 1, 1903, the last installment of Ohio's debt was paid. The legacy of the early internal improvements of the state, which for seventy-eight years had been a constant reminder to the people of early extravagance, was now entirely removed.

The study of the state debt of Ohio reveals some curious facts. Five times provision was made for the creation of a sinking fund, once by the constitution itself, and each time the provisions were disregarded. The words of the constitution were clear on this point, and the amount of the sinking fund to be applied annually to the payment of the principal was stated in the law of 1858. Yet in only three years between 1873 and 1903 was the constitutional requirement on this point met. In every other year the General Assembly of Ohio disregarded the plain mandate of the constitution they had sworn to uphold. They deferred the final payment of the debt for ten years after it was constitutionally due, and most of the time gave an exhibition of unsteady purpose.

156 Act of March 5, 1896 (O.L., 1896, p. 57). 157 *Ibid.*

158 O.L., 1898, p. 97. The act permitted a loan for $1,000,000, if necessary. As there was a balance of over $800,000 in the treasury awaiting legislative appropriation, it is difficult to see why any loan should have been made.

Instability was a leading characteristic of the legislation on this subject from the very beginning, equaled only by the vacillation at times on the part of executive officers. The application of the state's resources to the purpose of debt payment failed under the pressure of any exigency. Above all things, the credit of a government should rest upon an unchanging bed-rock of law; and in this case, though the effort was made to base it upon the rock of the constitution itself, it proved after all to have rested upon a legislative quicksand. The sinking fund provisions gave at most notice of the good intentions of the state, but it provided no certain guarantee of the payment of the debt. When the financial situation or the pressure from taxpayers made it difficult to pay, the provisions of the sinking fund were set aside again and again.

The objection often made to a sinking fund policy on the part of a sovereign government,[159] that it is unwise to bind itself to definite payments during the period when it may still be borrowing, seems to hold true of the Ohio sinking funds. Down to 1848 the state debt was increasing, and during this time, in spite of the law, no payments were made on the principal of the debt, until the year 1846. Again, during the period of the Civil War, Ohio was borrowing with one hand while she paid with the other. And in particular years, 1857, 1894, etc., unforeseen exigencies compelled the state to resort to temporary loans. At such times it seems foolish to compel the state to maintain fixed payments when the very money to be paid must be borrowed. The debt can be reduced only by the application of a clear surplus to its payment, and if there does not exist a surplus for that purpose it is manifestly impossible to reduce the debt.

The use of the accumulating sinking fund for purposes of canal construction during the early period of borrowing and building may then be justified by common-sense, even though it was contrary to law. Quite unjustifiable, on the other hand, was the diversion of the resources of the sinking fund to the ordinary current expenditures of the state. But the sinking

[159] E.g., by H. C. Adams, *Public Debts*, p. 282.

funds as provided for under the various laws were but clumsy devices to effect the desired end, and offered too tempting an object of legislative appropriation—or misappropriation—to be successfully withheld from misuse.

The best argument and justification for a rigid sinking-fund policy is that it establishes a first lien on accruing revenues, instead of leaving the payment of the debt to mere legislative whim or to the existence of a chance surplus. Either the revenues would be wholly absorbed by the more insistent claims of other interests, or the pressure from taxpayers would force a reduction of the tax rate and so prevent the existence of a surplus which could be devoted to debt payment. But the establishment of a sinking fund means, if it means anything, the withdrawal at the very beginning of a certain amount from current legislative appropriation and its devotion to a definitely prescribed purpose. The experience of Ohio shows the difficulty of holding a changing legislature to a steady purpose through a long period of years, even with the assistance of a constitutional requirement. Without that, the payment of the debt would certainly have been less regular and less rapid. There is illustrated here the difficulty of carrying out under a democratic form of government any enterprise which calls for unswerving, persistent effort for a distant end, particularly if this involves at the same time the sacrifice of immediate demands.

It may be wondered why the legislature was not compelled by the courts, after the adoption of the constitution of 1851, to conform to its provisions. There are probably two reasons which account for the non-observance of the law and the constitution: one was the simple fact that it was forgotten and overlooked, and the other that it was not to the interest of anyone to call attention to it, if he had discovered it. Taxpayer and bondholder alike were interested in a slow repayment of the debt and consequent low rate of taxation. And while it took a decade longer than it should have done to pay the debt, the obvious fact remains that the debt was finally paid. Of this, and of her record of never defaulting on the payment of principal or interest, Ohio may justly be proud. Her splendid record

in this respect is tarnished only by her resort to paper money in the payment of her bondholders during the period of the suspension of specie payments after 1862.

There is one other matter of interest in this connection. While the state debt was steadily reduced and finally extinguished, the local debts of Ohio have shown a steady increase, in common with those of other communities. In 1857 the local debts of towns, counties, and municipalities were estimated at $15,000,000. During the next eighteen years these increased very slowly and in 1875 were only $25,957,588, of which the cities of the first and second class owed $20,251,000. From that time they increased rapidly, and by 1902 amounted to $106,368,137, of which the first- and second-class cities owed three-quarters, or $76,678,120. In 1909 they were $184,314,231, of which sum the cities owed $127,915,107. At the very time the state debt was being paid off those of the local units were swelling in volume to an amount six times as great as the state debt at its maximum. There is illustrated here both the lessened financial importance of the states as agencies for the carrying-out of public works of great importance and magnitude, and the growth on the other hand of municipalities and their assumption of large powers. New functions have arisen, but they have devolved upon the local units and not upon the state as such. There is in Ohio no constitutional restriction upon the power of the local governmental units to incur debts, though it has been repeatedly urged by officials of the state that such a restriction should be imposed. It is evident, therefore, that public debts still exist in Ohio, and that the constitutional prohibition of a state debt has not prevented the practice of mortgaging the future; it has simply changed its form and transferred the work of carrying out public improvements to agencies other than the state. The present restriction upon the use of the credit of the state, while historically intelligible, is today both unnecessary and unwise.

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